

CAPSTONE BEHAVIORAL HEALTHCARE, INC.  
NEWTON, IOWA

INDEPENDENT AUDITOR'S REPORT  
FINANCIAL STATEMENTS  
SCHEDULE OF FINDINGS  
JUNE 30, 2022 AND 2021

CAPSTONE BEHAVIORAL HEALTHCARE, INC.

TABLE OF CONTENTS  
JUNE 30, 2022 AND 2021

	<u>PAGE</u>
BOARD OF DIRECTORS	1
INDEPENDENT AUDITOR'S REPORT	2-3
FINANCIAL STATEMENTS:	
STATEMENTS OF FINANCIAL POSITION	4
STATEMENTS OF ACTIVITIES	5
STATEMENTS OF FUNCTIONAL EXPENSES	6-7
STATEMENTS OF CASH FLOWS	8
NOTES TO FINANCIAL STATEMENTS	9-12
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <u>GOVERNMENT AUDITING STANDARDS</u>	13-14
SCHEDULE OF FINDINGS	15

CAPSTONE BEHAVIORAL HEALTHCARE, INC.

BOARD OF DIRECTORS

JUNE 30, 2022

<u>Name</u>	<u>Title</u>
Laurie Siddall	President
Mike Sell	Vice President
Rita Baker	Past President
Rob Burdess	Member
Desiree Cameron	Member
Jill Clapper	Member
Jody Eaton	Member
Bill Ehler	Member
Dawn Jaeger	Member
Kathleen May	Member
Lonnie Portner	Member
Julie Smith	Director
Rena Northcutt	Assistant Center Director



ANDERSON, LARKIN & CO., P.C.  
Certified Public Accountants  
*"Your Success Is Our Business."*

Kenneth E. Crosser, CPA  
April D. Crosser, CPA  
Michael J. Podliska, CPA  
Alexander T. Barr, CPA

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
Capstone Behavioral Healthcare, Inc.

### Opinion

We have audited the accompanying financial statements of Capstone Behavioral Healthcare, Inc. (a nonprofit organization), which comprise the Statements of Financial Position as of June 30, 2022 and 2021, and the related Statements of Activities, Functional Expenses and Cash Flows for the years then ended and the Notes to Financial Statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Capstone Behavioral Healthcare, Inc. as of June 30, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Capstone Behavioral Healthcare, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Capstone Behavioral Healthcare, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and Government Auditing Standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and Government Auditing Standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Capstone Behavioral Healthcare, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Capstone Behavioral Healthcare, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

#### Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 20, 2022, on our consideration of Capstone Behavioral Healthcare, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Capstone Behavioral Healthcare, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Capstone Behavioral Healthcare, Inc.'s internal control over financial reporting and compliance.

#### Report on Summarized Comparative Information

We have previously audited the Capstone Behavioral Healthcare, Inc.'s June 30, 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 9, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

ANDERSON, LARKIN & CO., P.C.

*Anderson, Larkin & Co., P.C.*

Ottumwa, Iowa  
October 20, 2022

## FINANCIAL STATEMENTS

CAPSTONE BEHAVIORAL HEALTHCARE, INC.

STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2022 WITH COMPARATIVE TOTALS AS OF JUNE 30, 2021

	<u>ASSETS</u>	
	<u>2022</u>	<u>2021</u>
<u>CURRENT ASSETS:</u>		
Cash and cash equivalents	\$ 474,948	\$ 154,751
Accounts receivable (net of allowance for doubtful accounts of \$174,147)	276,087	328,979
Prepaid expenses	46,512	8,581
Due from related party	20,547	41,599
Total current assets	<u>818,094</u>	<u>533,910</u>
<u>EQUIPMENT AND VEHICLES:</u>		
Equipment	517,488	370,281
Vehicles	50,845	50,845
Accumulated depreciation	(244,413)	(190,021)
Total equipment and vehicles	<u>323,920</u>	<u>231,105</u>
TOTAL ASSETS	\$ <u>1,142,014</u>	\$ <u>765,015</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES:</u>		
Accounts payable	\$ 9,977	\$ 31,618
Rent payable	-	4,300
Accrued liabilities:		
Salaries	160,204	139,235
Vacation	60,182	74,825
Payroll taxes	13,488	25,462
Interest	-	102
Line of credit	-	40,000
TOTAL CURRENT LIABILITIES	<u>243,851</u>	<u>315,542</u>
<u>NET ASSETS:</u>		
Without donor restrictions	<u>898,163</u>	<u>449,473</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>1,142,014</u>	\$ <u>765,015</u>

See Accompanying Notes to Financial Statements

CAPSTONE BEHAVIORAL HEALTHCARE, INC.

STATEMENTS OF ACTIVITIES

YEAR ENDED JUNE 30, 2022

WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2021

	<u>2022</u>	<u>2021</u>
<u>PUBLIC SUPPORT AND REVENUES:</u>		
Public support:		
Contributions	\$ 234,568	\$ 231,523
County revenue:		
Mental health	74,064	72,612
Patient fees:		
Mental health	3,770,176	2,956,971
Connections services	168,964	125,154
Integrated health home	391,484	482,176
Other revenue:		
PPP forgiven	-	591,500
Management fee	4,490	4,327
Miscellaneous Income	<u>4,225</u>	<u>17,039</u>
TOTAL PUBLIC SUPPORT AND REVENUES	<u>4,647,971</u>	<u>4,481,302</u>
<u>EXPENSES:</u>		
Program services:		
Integrated health home services	555,392	555,791
Mental health services	2,406,917	2,432,144
Community based services	570,295	571,990
Connections services	<u>110,216</u>	<u>111,255</u>
Total program services	3,642,820	3,671,180
Supporting services:		
Management and general	<u>556,461</u>	<u>548,011</u>
TOTAL EXPENSES	<u>4,199,281</u>	<u>4,219,191</u>
CHANGE IN NET ASSETS	448,690	262,111
NET ASSETS - Beginning of year	<u>449,473</u>	<u>187,362</u>
NET ASSETS - End of year	\$ <u>898,163</u>	\$ <u>449,473</u>



CAPSTONE BEHAVIORAL HEALTHCARE, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2022

WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2021

	Program Services		
	Integrated Health Home Services	Mental Health Services	Community Based Services
Salaries	\$ 420,086	\$ 1,484,302	\$ 420,086
Payroll taxes and insurance	34,586	112,406	34,586
Employee benefits	53,005	187,285	53,005
Total salaries and related expenses	507,677	1,783,993	507,677
Professional fees	-	50,182	4,182
Contract labor	-	91,655	-
Office supplies and expense	10,275	170,568	12,330
Medical supplies and other costs	-	2,792	147
Food supplies	-	-	4,485
Telephone	10,256	44,041	4,223
Postage and shipping	-	2,659	2,097
Rent	5,169	81,540	10,339
Building and grounds	-	12,890	1,666
Utilities	1,164	16,300	2,329
Property and liability insurance	-	54,843	-
Mileage	12,464	4,579	10,669
Staff development, training and recruitment	806	35,926	-
Subscriptions and publications	-	-	-
Equipment rent	-	772	48
Interest expense	-	-	-
Public relations	-	24,607	1,367
Bank fees	-	-	-
Miscellaneous	509	1,831	34
Total expenses before depreciation	548,320	2,379,178	561,593
Depreciation	7,072	27,739	8,702
TOTAL EXPENSES	\$ 555,392	\$ 2,406,917	\$ 570,295

See Accompanying Notes to Financial Statements

<u>Connections Services</u>		<u>Supporting Services Management and General</u>	<u>2022 Total</u>	<u>2021 Total</u>
	<u>Total</u>			
\$ 84,017	\$ 2,408,491	\$ 392,080	\$ 2,800,571	\$ 2,792,960
6,485	188,063	28,102	216,165	207,570
10,601	303,896	49,471	353,367	403,860
101,103	2,900,450	469,653	3,370,103	3,404,390
-	54,364	29,273	83,637	49,148
-	91,655	-	91,655	125,798
-	193,173	12,330	205,503	186,938
-	2,939	-	2,939	2,580
-	4,485	-	4,485	7,669
603	59,123	1,207	60,330	65,859
-	4,756	2,765	7,521	8,506
5,169	102,217	15,508	117,725	119,150
-	14,556	3,380	17,936	16,687
1,164	20,957	2,329	23,286	22,240
-	54,843	6,094	60,937	56,449
-	27,712	368	28,080	18,336
-	36,732	552	37,284	53,810
-	-	466	466	-
-	820	145	965	9,650
-	-	229	229	100
-	25,974	1,367	27,341	19,619
-	-	1,078	1,078	1,256
-	2,374	1,015	3,389	2,626
108,039	3,597,130	547,759	4,144,889	4,170,811
2,177	45,690	8,702	54,392	48,380
\$ 110,216	\$ 3,642,820	\$ 556,461	\$ 4,199,281	\$ 4,219,191

CAPSTONE BEHAVIORAL HEALTHCARE, INC.

STATEMENTS OF CASH FLOWS  
YEAR ENDED JUNE 30, 2022 WITH COMPARATIVE  
TOTALS FOR THE YEAR ENDED JUNE 30, 2021

	<u>2022</u>	<u>2021</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Cash received from Counties	\$ 74,064	\$ 72,612
Cash received from public support	230,568	231,523
Cash received from patient services and Title XIX	4,383,516	3,491,393
Cash received in other operations	29,767	16,467
Cash paid to employees and suppliers	<u>(4,210,511)</u>	<u>(4,243,909)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>507,404</u>	<u>(431,914)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES:</u>		
Proceeds from short-term debt	-	40,000
Payments on short-term debt	<u>(40,000)</u>	<u>-</u>
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	<u>(40,000)</u>	<u>40,000</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Purchase of fixed assets	<u>(147,207)</u>	<u>(86,019)</u>
NET CASH (USED) BY FINANCING ACTIVITIES	<u>(147,207)</u>	<u>(86,019)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	320,197	(477,933)
<u>CASH AND CASH EQUIVALENTS</u> - Beginning of year	<u>154,751</u>	<u>632,684</u>
<u>CASH AND CASH EQUIVALENTS</u> - End of year	\$ <u>474,948</u>	\$ <u>154,751</u>
<u>RECONCILIATION OF CHANGE IN NET ASSETS TO</u> <u>NET CASH PROVIDED BY OPERATING ACTIVITIES:</u>		
Change in net assets	\$ 448,690	\$ 262,111
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	54,392	48,380
Provision for doubtful accounts, net of recoveries	(253,201)	222,514
Debt forgiveness	-	(591,500)
Decrease (increase) in accounts receivable	306,093	(295,422)
Decrease (increase) in prepaid expenses	(37,931)	2,451
Decrease (increase) in due from related party	21,052	(4,899)
Increase (decrease) in accounts payable	(21,641)	6,220
Increase (decrease) in rent payable	(4,300)	1,500
Decrease in due to related party	-	(104,550)
Increase (decrease) in accrued liabilities	<u>(5,750)</u>	<u>21,281</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ <u>507,404</u>	\$ <u>(431,914)</u>
<u>SUPPLEMENTAL DISCLOSURES OF NON-CASH OPERATING</u> <u>ACTIVITIES:</u>		
Debt forgiveness	\$ -	\$ 591,500

See Accompanying Notes to Financial Statements

CAPSTONE BEHAVIORAL HEALTHCARE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Organization is a nonprofit corporation established to provide services to educate, evaluate, and treat persons who are in need of mental health care or substance abuse treatment and provide services to promote the prevention of mental illness and substance abuse. Services are provided to individuals residing in Newton, Iowa and the surrounding areas.

The Organization is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and a similar section of the Iowa income tax law which provide tax exemption for corporations organized and operated exclusively for religious, charitable or educational purposes.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board. Under FASB, the Organization is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Equipment and Vehicles

Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The Organization follows the policy of expensing any items purchased that cost under \$500. Depreciation is computed using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Equipment	3-10
Vehicles	5

Depreciation expense for the year ended June 30, 2022 was \$54,392.

Accounts Receivable

The Organization's receivables are trade receivables due primarily from individuals, government agencies and Medicaid payers. Accounts receivable are stated at unpaid balances, less an allowance for doubtful accounts. The Organization provides for losses on accounts receivable using the allowance method. The allowance is based on experience, third party contracts, and knowledge of circumstances that may affect the ability of clients to meet their obligations. Receivables are considered impaired if full principal payments are not received in accordance with the contractual terms. It is the Organization's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected.

CAPSTONE BEHAVIORAL HEALTHCARE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

Management uses estimates and assumptions in preparing the financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Accordingly, actual results could differ from those estimates.

Contributions

The Organization accounts for contributions in accordance with the recommendations of the Financial Accounting Standards Board. In accordance with FASB, contributions received are recorded as increases in support with or without donor restrictions, depending on the existence or nature of any donor restrictions.

All donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. It is the Organization's policy to show net assets with donor restrictions that are received and expended in the same year as contributions without donor restrictions.

The Organization reports gifts of land, buildings, and equipment as support without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the donated assets must be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as support with donor restrictions. Absent explicit donor stipulations about how long the long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Functional Expense Allocations

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. Salaries and related expenses were allocated on the basis of time spent for program services and for supporting services. Depreciation expense was allocated directly to programs when possible, with the remaining balance allocated based upon the allocation of space. The allocation of expenses other than salaries and related expenses shown on the statement of functional expenses was made by assignment of costs based on the allocation of space or the number of the full time equivalent employees.

Advertising

Advertising costs are expensed as incurred. Advertising expense was \$27,341 for the year ended June 30, 2022.

Comparative Financial Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's audited financial statements for the year ended June 30, 2021 from which the summarized information was derived.

CAPSTONE BEHAVIORAL HEALTHCARE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022

NOTE 2: LINE OF CREDIT

The Organization has a line of credit with First Newton National Bank dated December 28, 2021, due July 12, 2022, with a fixed interest rate of 2.27% and any outstanding principal and interest payable at maturity. The balance of the line of credit at June 30, 2022 was \$0. The line of credit is secured by a certificate of deposit from Capstone Community Foundation.

NOTE 3: LEASE AGREEMENTS

The Organization entered into dual multi-year lease agreements on January 1, 2022 and May 1, 2022 for office space from the Capstone Community Foundation (a related party) for a monthly rental of \$1,500 each. The leases expire on December 31, 2025 and April 30, 2025, respectively. On June 1, 2018 the Organization entered into a five-year lease agreement for office space for a monthly rental of \$6,200 per month. The lease expires May 31, 2023. The Organization also rents additional office space on a month-to-month lease at a monthly rental of \$1,500 per month. The Organization rents office space in Grinnell, Iowa and received an in-kind donation for the rent through August 31, 2021. The estimated value of the in-kind donation was \$4,000 for the year-ended June 30, 2022 and is included in contribution revenue and rent expense on the Statement of Activities. Effective September 1, 2021, the Organization began renting the office space in Grinnell, Iowa on a five-year lease that requires a monthly rental fee of \$700 per month through August 31, 2026.

The Organization also leases an apartment from Beacon Housing Corporation (a related party) for \$350 per month for use as an office; the lease is renewed annually. The Organization also has several leases which are classified as an operating lease for copiers with an unrelated third party for \$1,088 per month. These leases expire at dates ranging from October 21, 2021 to June 1, 2025. Future minimum lease payments on these operating leases are as follows:

Year Ending <u>June 30,</u>	
2023	\$ 129,790
2024	56,664
2025	52,642
2026	17,400
2027	<u>1,400</u>
	\$ <u>257,896</u>

Lease expense totaled \$118,690 for the year ended June 30, 2022, which is included in the statement of functional expenses as rent and equipment rent.

NOTE 4: RELATED PARTIES

Capstone Community Foundation is a separate nonprofit corporation. It leases property and contributes funding at times to the Organization. Following is a summary of transactions as of and for the year ended June 30, 2022:

Due from Capstone Community Foundation	\$ 6,900
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Beacon Housing Corporation, a separate non-profit corporation, was incorporated November 12, 1991. It provides residential housing for individuals with disabilities through a HUD program. The two corporations are related by common officers and trustees and operate toward a common cause.

CAPSTONE BEHAVIORAL HEALTHCARE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022

NOTE 4: RELATED PARTIES (Continued)

The following is a summary of transactions as of and for the year ended June 30, 2022:

Due from Beacon Housing Corporation	\$ 13,647
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Management fee income is included in other revenue on the Statement of Activities.

NOTE 5: PENSION PLAN

The Organization has established a 401(k) Plan for all full-time employees. The Organization's Plan allows for the Organization to make voluntary contributions. The Organization did not contribute to the Plan during the year ended June 30, 2022.

NOTE 6: MAJOR REVENUE SOURCE

The Organization receives the majority of its funding from grants and purchase of service contracts with the State of Iowa and its various agencies. The majority of the Organization's grant and purchase of service contracts' funding is accomplished through a reimbursement system.

NOTE 7: RISK MANAGEMENT

The Organization is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. The Organization assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims for these risks have not exceeded commercial insurance coverage for the past three years.

NOTE 8: LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following reflects the Organization's financial assets as of June 30, 2022, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date.

Financial assets, at year-end:	
Cash and cash equivalents	\$ 474,948
Accounts receivable	276,087
Due from related party	<u>20,547</u>
Financial assets available to meet cash needs for general expenditures within one year	\$ <u>771,582</u>

As part of Capstone Behavioral Healthcare Inc.'s liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

NOTE 9: EVALUATION OF SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through October 20, 2022, the date which the financial statements were available to be issued.

Subsequent to June 30, 2022, on July 12, 2022, the Organization's line of credit was renewed with a new maturity date of February 12, 2023 and interest rate of 2.27%.



ANDERSON, LARKIN & CO., P.C.  
Certified Public Accountants  
*"Your Success Is Our Business."*

Kenneth E. Crosser, CPA  
April D. Crosser, CPA  
Michael J. Podliska, CPA  
Alexander T. Barr, CPA

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors  
Capstone Behavioral Healthcare, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of Capstone Behavioral Healthcare, Inc., Newton, Iowa, as of and for the year ended June 30, 2022, and the related Notes to Financial Statements, and have issued our report thereon dated October 20, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Capstone Behavioral Healthcare, Inc.'s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Capstone Behavioral Healthcare, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Capstone Behavioral Healthcare, Inc.'s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Organization's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings as item (A) that we consider to be a material weakness.



## Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Capstone Behavioral Healthcare, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the Organization's operations for the year ended June 30, 2022 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Organization. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. Comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

## Capstone Behavioral Healthcare, Inc.'s Responses to Findings

Government Auditing Standards requires the auditor to perform limited procedures on Capstone Behavioral Healthcare, Inc.'s response to the findings identified in our audit and described in the accompanying Schedule of Findings. Capstone Behavioral Healthcare, Inc.'s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Capstone Behavioral Health, Inc. during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

ANDERSON, LARKIN & CO., P.C.

*Anderson, Larkin & Co., P.C.*

Ottumwa, Iowa  
October 20, 2022

CAPSTONE BEHAVIORAL HEALTHCARE, INC.

SCHEDULE OF FINDINGS

YEAR ENDED JUNE 30, 2022

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

(A) Segregation of Duties

Criteria – Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the Organization's financial statements.

Condition – Generally, one individual in the Organization has control over receipts and performs all record keeping and reconciling functions.

Cause – The Organization has a limited number of employees and procedures have not been designed to adequately segregate duties or provide compensating controls through additional oversight of transactions and processes.

Effect – Inadequate segregation of duties could adversely affect the Organization's ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

Recommendation – The Organization should review its control activities to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including officials, to provide additional control through review of financial transactions, reconciliations and reports. These independent reviews should be documented by the signature or initials of the reviewer and the date of the review.

Response – We have reviewed procedures and plan to make the necessary changes to improve internal control.

Conclusion – Response accepted.

INSTANCES OF NONCOMPLIANCE:

No matters were noted.